

# Notes to the Financial Statements

## For the year ended December 31, 2018

(Expressed in Saudi Arabian Riyals)

### 1. REPORTING ENTITY

Saudi Airlines Catering Company (the "Company") is a Saudi Joint Stock Company domiciled in the Kingdom of Saudi Arabia. The Company was registered as a Saudi limited liability company on Muharram 20, 1429H (January 29, 2008) under commercial registration number 4030175741.

The Company has obtained the amended commercial registration and the amended By-laws reflecting the public offering.

The main objectives of the Company are the provision of cooked and non-cooked food to private and public sectors, provision of sky sales, operation and management of duty free zones in Saudi Arabian airports and ownership, operation and management of restaurants at airports and other places, and the ownership, operation and management of central laundries.

The Company mainly provides catering services to Saudi Arabian Airlines and other foreign airlines in the airports of Jeddah, Riyadh, Dammam and Madinah in Saudi Arabia and to Saudia's flights operating from Cairo International Airport.

The Company also has the following branches, which are operating under separate Commercial registrations:

Branch location	C.R.	Date
Rabigh	4602006306	Rajab 16, 1436H (May 5, 2015)
Medina	4650055980	Jumada Al-Thani 1, 1433H (April 23, 2012)
Dammam	2050082998	Jumada Al-Thani 1, 1433H (April 23, 2012)
Makkah	4031084114	Jumada Al-Atwal 23, 1435H (March 25, 2014)
Jeddah	4030227251	Jumada Al-Thani 1, 1433H (April 23, 2012)
Jeddah	4030285290	Muharram 2, 1437H (October 16, 2015)
Riyadh	1010336558	Jumada Al-Thani 1, 1433H (April 23, 2012)

The registered head office of the Company is located at the following address:

#### Saudi Airlines Catering Company

Al Saeb Al Jomhi Street  
 Prince Sultan Bin Abdulaziz Road, Almohammadya District (5)  
 P. O. Box 9178, Jeddah 21413  
 Kingdom of Saudi Arabia

### 2. BASIS OF ACCOUNTING

#### A) Statement of compliance

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") (hereafter referred to as "IFRS as endorsed in KSA").

According to the announcement of the Capital Market Authority (CMA) dated October 16, 2016, the Company has to apply the cost method for the measurement of the property, plant and equipment, investment properties and intangible assets for 3 years from the date of applying IFRS.

#### B) Basis of Measurement

These financial statements have been prepared under the historical cost basis, except for the defined benefit obligation which is recognized at the present value of future obligation using the projected unit credit method. Further, the financial statements are prepared using the accrual basis of accounting and going concern concept.

#### C) Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals ("SR") which is the Company's functional and presentation currency.

# Notes to the Financial Statements continued

## For the year ended December 31, 2018

(Expressed in Saudi Arabian Riyals)

### 3. USE OF JUDGEMENTS AND ESTIMATES

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

#### A. Judgements

Management exercise its judgement in applying the accounting policies that have the most significant effects on the amounts recognized in the financial statements.

#### Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer and recognizes revenue at a point of time when the control of goods is transferred to the customers.

Management exercise its judgement on whether it acts as a principal or agent in its contractual agreements and is recognized revenue on gross or net basis accordingly.

#### B. Assumptions and estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### Inventories obsolescence provision

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence.

At the reporting date, gross inventories were SR 138 million (December 31, 2017: SR 114 million) with a provision for obsolete and slow-moving inventories amounting to SR 13.4 million (December 31, 2017: SR 4.3 million). Any difference between the amounts actually realized in future periods and the amounts expected will be recognized in the statement of profit or loss.

#### Defined Benefit Obligation

The present value of Company's obligation under defined benefit plans is determined using actuarial valuation. This involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and employees' turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is sensitive to changes in these assumptions. All assumptions are reviewed annually. Future salary increases are based on expected future inflation rates, seniority, promotion, demand and supply in the employment market.

#### Impairment for expected credit losses (ECL) in trade and other receivables

The Company's determination of the ECL in trade and other receivables requires the Company to take into consideration certain estimates for forward looking factors while calculating the probability of default. These estimates may differ from actual circumstances.

#### Impairment of associates

The Company exercises judgement to consider the impairment of associate as well as their underlying assets. This includes the assessment of objective evidence which causes other than temporary decline in the value of investments. Any significant and prolonged decline in the fair value below its cost is considered as objective evidence for the impairment. The determination of what is 'significant' and 'prolonged' requires judgement. The Company also considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

### 4. SIGNIFICANT ACCOUNTING POLICIES

#### A. Investments in Associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Company investments in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised, nor individually tested for impairment.

The profit or loss reflects the Company's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Company's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Company's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax.

The financial statements of the associate are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognizes the loss.

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

#### B. Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Company at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

#### C. Revenue

The Company recognizes revenue at the amount of the transaction price that is allocated to that performance obligation. Revenue is recorded net of returns, trade discounts, volume rebates, estimates of other variable consideration and amounts collected on behalf of third parties.

The Company recognizes revenue from contracts with customers based on a five step model as set out in IFRS 15 - Revenue from Contracts with Customers. Revenue is measured based on the consideration specified in a contract with a customer and is recognized at a point of time when the control of goods is transferred to the customers.

Generally, the Company considers the following indicators of the transfer of control:

- The Company has a present right to payment for the goods/asset
- The customer has legal title to the goods/asset
- The Company has transferred physical possession/control of the goods/asset
- The customer has the significant risks and rewards of ownership of the goods/asset
- The customer has accepted the goods/asset

#### Catering revenue

Revenue from catering and other services is recognized when the services are rendered to the customer.

#### Airline equipment

Income is recognized when the control over the equipment is transferred to the customer.

# Notes to the Financial Statements continued

## For the year ended December 31, 2018

(Expressed in Saudi Arabian Riyals)

### 4. SIGNIFICANT ACCOUNTING POLICIES continued

#### C. Revenue continued

##### Business lounges

Revenue from business lounges is recognized upon rendering the service to the passengers.

##### Sales of goods – Retail

Revenue from the sale of goods is recognized when the Company satisfies the performance obligation by transferring the promised goods (asset) to the customer. An asset is transferred when the customer obtains control of that asset.

#### D. Employee benefits

##### i. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation can be estimated reliably.

##### ii. Defined benefit plans

Provision is made for amounts payable to employees under the Saudi Labour Law and employee contracts. This liability, which is unfunded, represents the amount payable to each employee on a going concern basis.

The Company provides end of service benefits to employees. These benefits are unfunded. The cost of providing benefits is determined using the projected unit credit method as amended by IAS 19.

Remeasurements, comprising of actuarial gains and losses, excluding amounts included in interest on the defined benefit liability are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Company recognizes related restructuring costs.

Interest is calculated by applying the discount rate to the defined benefit liability. The Company recognizes the following changes in the defined benefit obligation under 'cost of sales', and 'general and administration expenses' in the income statement:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Interest expense or income.

##### iii. Other long-term employee benefits

The Company's obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value if the impact is material. Remeasurements are recognized in profit or loss in the period in which they arise.

##### iv. Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

#### E. Zakat and income tax

The Company is subject to Regulations of Saudi General Authority of Zakat and Income Tax ("GAZT") in the Kingdom of Saudi Arabia. Zakat and income tax are provided on an accruals basis. The Zakat charge is computed on the Zakat base. Income tax is computed on adjusted net income. The amount of Zakat and income tax is the best estimate of the Zakat and income tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using Zakat and tax rates enacted or substantially enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans of the Company and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves. Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The Company withholds taxes on transactions with non-resident parties and on dividends paid to foreign shareholders in accordance with GAZT regulations, which is not recognized as an expense being the obligation of the counter party on whose behalf the amounts are withheld.

#### F. Segment information

A segment is a distinguishable component of the Company that engages in business activities from which it earns revenue and incurs costs. The operating segments are used by the management of the Company to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

The Company has the following three strategic divisions, which are reportable segments. These divisions offer different products and services, and are managed separately because of their different fundamentals.

The following summary describes the operations of each reportable segment:

Reportable segments	Operations
Inflight	Inflight catering, airline equipment and business lounge
Retail	Onboard and ground
Catering and Facilities	Remote & Camp management, Business & Industries catering, Security services, Laundry services, Hajj & Umrah & Baggage handling services

The Company's Board reviews the internal management reports of each strategic division at least quarterly.

#### G. Contingencies

Contingent liabilities are not recognized in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements, but are disclosed when an inflow of economic benefits is probable.

#### H. Finance income and finance cost

Interest income or expense is recognized using the effective interest method. Dividend income is recognized in profit or loss on the date on which the Company right to receive payment is established.

#### I. Operating profit

Operating profit is the result generated from the continuing principal revenue producing activities of the Company as well as other income and expenses related to operating activities. Operating profit excludes net finance costs, share of profit of equity accounted investees and income taxes.

#### J. Interest income

Interest income is recognized on a time proportion basis using the effective interest method.

#### K. Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in statement of profit or loss.

#### L. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to sell.

The Company determines its allowance for inventory obsolescence based upon historical experience, current condition, and current and future expectations with respect to sales.

#### M. Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Company classifies all other assets as non-current.

# Notes to the Financial Statements continued

## For the year ended December 31, 2018

(Expressed in Saudi Arabian Riyals)

### 4. SIGNIFICANT ACCOUNTING POLICIES continued

#### M. Current versus non-current classification continued

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

#### N. Property, plant and equipment

##### i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Expenditure on maintenance and repairs of items of Property, plant and equipment is expensed, while expenditure for betterment is capitalized.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in the profit or loss.

Capital work-in-progress represents all costs relating directly to on-going construction projects and are capitalized as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category. Capital work-in-progress is not depreciated.

##### ii. Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

##### iii. Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over the estimated useful lives, and is generally recognized in profit or loss. Land is not depreciated.

The estimated useful lives of the principal classes of assets are as follows:

Leasehold improvements	2-30 years
Equipment	3-15 years
Motor vehicles	7-10 Years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property and equipment.

#### O. Investment property

Investment property is initially measured at cost and is depreciated over its useful life.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

Rental income from investment property is recognized as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

Rental income from other property is recognized as other income.

#### P. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Intangibles comprise software, which have finite useful lives and are measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

Amortisation is calculated to write off the cost of intangible assets using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. The estimated useful life of software is 5 years.

#### Q. Non-derivative financial instruments

##### i. Non-derivative financial assets and financial liabilities – Recognition and derecognition

The Company initially recognizes loans and receivables, deposits and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

##### ii. Non-derivative financial assets – Measurement

###### Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

###### Financial assets at fair value through profit or loss

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

##### iii. Non-derivative financial liabilities

Non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

#### R. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares recognized as a deduction from equity.

#### S. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

#### T. Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

#### U. Leases

##### i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset.

# Notes to the Financial Statements continued

## For the year ended December 31, 2018

(Expressed in Saudi Arabian Riyals)

### 4. SIGNIFICANT ACCOUNTING POLICIES continued

#### U. Leases continued

At inception or on reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Company's incremental borrowing rate.

#### ii) Leased assets

Leases of property, plant and equipment that transfer to the Company substantially all of the risk and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Company's statement of financial position.

#### iii) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

### 5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

#### A. IFRS 15 Revenue from Contracts with Customers

The Company adopted IFRS 15: Revenue from Contracts with Customers effective from January 1, 2018.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The Company recognizes revenue when a customer obtains controls of the goods at a point in time i.e. on delivery and acknowledgment of goods, which is in line with the requirements of IFRS 15.

The Company recognizes revenue from contracts with customers based on a five-step model as set out in IFRS 15 and is given below:

Step 1 - Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met;

Step 2 - Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer;

Step 3 - Determine the transaction price: The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties;

Step 4 - Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Company allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation;

Step 5 - Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- The Company's performance does not create an asset with an alternate use to the Company and the Company has an enforceable right to payment for performance completed to date;
- The Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
- The customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs.

For performance obligations where none of the above conditions are met, revenue is recognized at the point in time at which the performance obligation is satisfied.

There was no material effect of adopting 'IFRS 15 Revenue from Contracts with Customers' except for the recognition of Airline Equipment revenue. Previously the Company accounted for the airline equipment revenue on the gross basis, however according to the IFRS 15, the entity should control the specified goods or services to be accounting as gross basis and act as a principal. The Company is acting on behalf of purchaser by procuring equipment based on the their yearly approved equipment forecast and in return, receives a fixed commission over and above of the costs incurred. The Company does not control the goods before it is transferred to purchaser, and the obligation of the Company is to arrange for another party to provide the goods, therefore, the Company is acting as agent and should recognize revenue on a net basis. The Company has adopted IFRS 15 using the retrospective effect method and has presented the impact on its profit and loss for the year ended December 31, 2017 and 2018 as follows:

Year ended December 31, 2018	As per IFRS 15	As per old policy	Impact of adoption of IFRS 15
Revenue	2,035,757,930	2,266,674,821	(230,916,891)
Cost of sales	1,339,278,458	1,570,195,349	(230,916,891)
Net profit	459,280,884	459,280,884	-

  

Year ended December 31, 2017	As per IFRS 15	As per old policy	Impact of adoption of IFRS 15
Revenue	1,952,564,940	2,223,394,348	(270,829,408)
Cost of sales	1,229,772,985	1,500,602,393	(270,829,408)
Net profit	481,737,979	481,737,979	-

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Company's revenue segments are set out below.

Type of Product	Nature, timing of satisfaction on performance obligations, significant payment terms	Nature of change in accounting policy
Inflight Catering, Remote & Camp management, Business & Industries catering, Laundry Services and Hajj & Umrah	Revenue from catering and other services is recognized when the services are rendered to the customer. Invoices are generated and revenue is recognized at that point in time. Invoices are generated and recognized as revenue, net off applicable discounts which relate to the items sold. No customer loyalty points are offered to customers and therefore there is no deferred revenue to be recognized for the items sold.	There is no impact from adopting IFRS 15. Revenue from catering and other services is recognized when the services are rendered to the customer. There are no returns for these services.
	For contracts that permit the customer to return an item, under IFRS 15 revenue is recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Therefore, the amount of revenue recognized is adjusted for actual returns.	
	The revenue is recognized at the point of time.	
Airline Equipment	The Company is acting as an agent on behalf of the customer by procuring equipment and receives a commission over and above the costs incurred. The Company does not control the goods before it is transferred to the customer and the revenue is recognized at a point of time when the equipment is received from the supplier.	Income is recognized when the control over the equipment is transferred to the customer on a net basis, representing the commission.
Business Lounges	The Company recognizes revenue when passengers access the business lounges at a point of time at fixed rates based on contracts with airlines companies.	There is no impact from adoption of IFRS 15.
Onboard & Ground Retail	This revenue stream represents normal retail trade of skysales. The obligation is satisfied when the good is purchased at a point of time.	There is no impact from adoption of IFRS 15. Revenue from the sale of goods is recognized when the Company satisfies the performance obligation by transferring the promised goods (asset) to the customer. An asset is transferred when the customer obtains control of that asset.



**Notes to the Financial Statements** continued  
**For the year ended December 31, 2018**  
(Expressed in Saudi Arabian Riyals)

**5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES** continued

**B. IFRS 9 Financial Instruments**

The Company adopted IFRS 9 effective from January 1, 2018.

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments Recognition and Measurement.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

**i. Classification and measurement of financial assets and financial liabilities**

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the accounting policies related to financial liabilities and derivatives financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on the initial recognition, a financial asset is classified as measured at amortised cost; FVOCI-debt investment; FVOCI-equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortised cost if it meets both of the conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On the initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see (ii) below). Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gains or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

The effect of adopting IFRS 9 on the carrying amounts in financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the class of the Company's financial assets as at January 1, 2018.

	Original Classification under IAS 39	New Classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Other financial assets	Loans and Receivables/Held to Maturity	Amortised Cost	73,620,570	73,620,570
Trade Receivables	Loans and Receivables	Amortised Cost	854,926,157	869,792,668
Cash and bank balances	Loans and Receivables	Amortised Cost	101,547,658	101,547,658
<b>Total</b>			<b>1,030,094,385</b>	<b>1,044,960,896</b>

**ii) Impairment of financial assets**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investment in equity instruments. Under IFRS9, credit losses are recognized earlier than IAS 39.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

'The Company measures loss allowances at an amount equal to lifetime ECLs.

'When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort.

This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Furthermore, the majority of the trade receivables are due from the major shareholder in the Company and government and semi-government entities. As a result, the Company has reversed an impairment of trade receivables amounting to SR 12.8 million. The Company adopted IFRS 9 prospectively, therefore the Company have not restated the comparative figures.

**Measurement of ECLs**

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

**Credit-impaired financial assets**

At each reporting date, the Company assesses whether financials assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

# Notes to the Financial Statements continued

## For the year ended December 31, 2018

(Expressed in Saudi Arabian Riyals)

### 5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES continued

#### B. IFRS 9 Financial Instruments continued

##### iii) Transition

The Company has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are not recognized in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

#### C. New standards

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below.

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
Annual reporting periods beginning on or after January 1, 2019, early adoption is permitted	IFRS 16 – Leases	IFRS 16 changes fundamentally the accounting for leases by lessees. It eliminates the current IAS 17 dual accounting model, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases and, instead, introduces a single, on-balance sheet accounting model that is similar to current finance lease accounting.  Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.  Sale-and-leaseback is effectively eliminated as an off-balance sheet financing structure.
1 January 2019	(2015-2017 annual improvements cycle) IFRS 3, IAS 12 and IAS 23	The standards affected under the 2015-2017 annual improvements cycle, and the subjects of the amendments are: • IFRS 3 business combinations and IFRS 11 Joint arrangements – previously held interest in a joint operation. • IAS 12 Income Taxes – income tax consequences of payments on financial instruments classified as equity. • IAS 23 Borrowing Costs – borrowing costs eligible for capitalisation.
1 January 2019	Amendments to IAS 28	The amendments clarify that the Company applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.
1 January 2019	Amendments to IFRS 9	Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

### D. Impairment

#### i) Non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Company's assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss.

Intangible assets with indefinite useful lives are tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

### 6. OPERATING SEGMENTS

#### A. Information about reportable segments

December 31, 2018

	Inflight	Retail	Catering and facilities	Total reportable segments	All other unreportable segments	Head office	Total
External revenue	1,627,855,878	177,748,465	156,360,923	1,961,965,266	73,792,664	-	2,035,757,930
Inter-segment revenue	51,961,185	-	5,637,198	57,598,383	307,652,069	-	365,250,452
Segment revenue	1,679,817,063	177,748,465	161,998,121	2,019,563,649	381,444,733	-	2,401,008,382
Segment profit/(loss) before zakat and tax	865,413,923	4,521,120	1,288,147	871,223,190	(374,828,129)	-	496,395,061
Depreciation and amortization	29,789,112	3,093,594	6,708,308	39,591,014	23,820,799	-	63,411,813
<b>Assets:</b>							
Segment assets	993,812,786	135,197,557	129,933,166	1,258,943,509	288,923,247	-	1,547,866,756
Other assets	-	-	-	-	-	537,918,903	537,918,903
<b>Total</b>	<b>993,812,786</b>	<b>135,197,557</b>	<b>129,933,166</b>	<b>1,258,943,509</b>	<b>288,923,247</b>	<b>537,918,903</b>	<b>2,085,785,659</b>
<b>Liabilities:</b>							
Segment liabilities	291,189,683	46,047,245	22,060,478	359,297,406	137,470,212	-	496,767,618
Other liabilities	-	-	-	-	-	287,562,584	287,562,584
<b>Total</b>	<b>291,189,683</b>	<b>46,047,245</b>	<b>22,060,478</b>	<b>359,297,406</b>	<b>137,470,212</b>	<b>287,562,584</b>	<b>784,330,202</b>

**Notes to the Financial Statements** continued  
**For the year ended December 31, 2018**  
(Expressed in Saudi Arabian Riyals)

**6. OPERATING SEGMENTS** continued

**A. Information about reportable segments** continued  
December 31, 2017

	Inflight	Retail	Catering and facilities	Total revenue for reportable segments	All other segments	Head office	Total
External revenue	1,508,122,708	261,503,197	119,889,814	1,889,515,719	63,049,221	-	1,952,564,940
Inter-segment revenue	46,399,516	32,805	3,914,868	50,347,189	283,315,605	-	333,662,794
Segment revenue	1,554,522,224	261,536,002	123,804,682	1,939,862,908	346,364,826	-	2,286,227,734
Segment profit/(loss) before zakat and tax	846,178,734	30,961,744	2,766,509	879,906,987	(356,499,689)	-	523,407,298
Depreciation and amortization	25,759,854	2,897,364	6,616,891	35,274,109	22,211,782	-	57,485,891
<b>Assets:</b>							
Segment assets	897,173,262	122,050,788	117,298,312	1,136,522,362	260,828,011	-	1,397,350,373
Other assets	-	-	-	-	-	485,611,036	485,611,036
<b>Total</b>	897,173,262	122,050,788	117,298,312	1,136,522,362	260,828,011	485,611,036	1,882,961,409
<b>Liabilities:</b>							
Segment liabilities	222,761,538	35,226,369	16,876,374	274,864,281	105,165,388	-	380,029,669
Other liabilities	-	-	-	-	-	219,986,789	219,986,789
<b>Total</b>	222,761,538	35,226,369	16,876,374	274,864,281	105,165,388	219,986,789	600,016,458

**B. Reconciliations of information on reportable segments to IFRS measures**

**I. Revenue**

	December 31, 2018	December 31, 2017
Total revenue for reportable segments	<b>2,019,563,649</b>	1,939,862,908
Revenue for other segments	<b>381,444,733</b>	346,364,826
Elimination of intersegment revenue	<b>(365,250,452)</b>	(333,662,794)
<b>Total revenue</b>	<b>2,035,757,930</b>	1,952,564,940

**II. Profit**

	December 31, 2018	December 31, 2017
Total profit for reportable segments	<b>871,223,190</b>	879,906,987
Profit for other segments	<b>(374,828,129)</b>	(356,499,689)
<b>Total profit</b>	<b>496,395,061</b>	523,407,298

**III. Assets**

	December 31, 2018	December 31, 2017
Total assets for reportable segments	<b>1,258,943,509</b>	1,136,522,362
Assets for other segments	<b>288,923,247</b>	260,828,011
Other unallocated amounts	<b>537,918,903</b>	485,611,036
<b>Total assets</b>	<b>2,085,785,659</b>	1,882,961,409

Other unallocated amounts principally related to cash and cash equivalents, investment securities and prepayment and other current assets.

**IV. Liabilities**

	December 31, 2018	December 31, 2017
Total liabilities for reportable segments	<b>359,297,406</b>	274,864,281
Liabilities for other segments	<b>137,470,212</b>	105,165,388
Other unallocated amounts	<b>287,562,584</b>	219,986,789
<b>Total liabilities</b>	<b>784,330,202</b>	600,016,458

Head office amounts principally related to trade and other payables, current zakat and tax liabilities and employee benefits.

**V. Geographical information**

Revenue	December 31, 2018	December 31, 2017
Kingdom of Saudi Arabia	<b>1,959,119,018</b>	1,864,015,152
<b>All foreign countries</b>		
Egypt - Cairo	<b>76,638,912</b>	88,549,788
<b>Total revenue</b>	<b>2,035,757,930</b>	1,952,564,940

**C. Major customer**

Revenue from one customer of the Company's Airline segment represented approximately 60% of the Company's total revenues.

**7. PROPERTY, PLANT AND EQUIPMENT**

**A. Reconciliation and carrying amount**

	Land	Leasehold improvements	Equipment	Motor vehicles	Under construction	Total
<b>Cost:</b>						
Balance at January 1, 2018	<b>33,786,058</b>	<b>298,617,972</b>	<b>170,921,526</b>	<b>104,211,437</b>	<b>101,670,266</b>	<b>709,207,259</b>
Additions	-	<b>1,046,358</b>	<b>5,970,337</b>	<b>1,204,216</b>	<b>84,570,274</b>	<b>92,791,185</b>
Disposal	-	<b>(45,913,928)</b>	<b>(3,781,947)</b>	<b>(14,925,579)</b>	-	<b>(64,621,454)</b>
Transfer from capital work under construction	-	<b>3,798,698</b>	<b>8,472,180</b>	<b>3,243,467</b>	<b>(15,514,345)</b>	-
<b>Balance at December 31, 2018</b>	<b>33,786,058</b>	<b>257,549,100</b>	<b>181,582,096</b>	<b>93,733,541</b>	<b>170,726,195</b>	<b>737,376,990</b>

**Accumulated depreciation:**

Balance at January 1, 2018	-	<b>46,527,816</b>	<b>75,406,829</b>	<b>32,810,599</b>	-	<b>154,745,244</b>
Charge for the year	-	<b>23,804,638</b>	<b>25,563,428</b>	<b>11,070,883</b>	-	<b>60,438,949</b>
Disposals	-	<b>(45,913,928)</b>	<b>(3,690,407)</b>	<b>(14,911,778)</b>	-	<b>(64,516,113)</b>
<b>Balance at December 31, 2018</b>	-	<b>24,418,526</b>	<b>97,279,850</b>	<b>28,969,704</b>	-	<b>150,668,080</b>

**Carrying amounts:**

<b>At December 31, 2018</b>	<b>33,786,058</b>	<b>233,130,574</b>	<b>84,302,246</b>	<b>64,763,837</b>	<b>170,726,195</b>	<b>586,708,910</b>
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	Land	Leasehold improvements	Equipment	Motor vehicles	Under construction	Total
<b>Cost:</b>						
Balance at January 1, 2017	33,786,058	228,941,864	132,399,306	101,122,372	134,964,588	631,214,188
Additions	-	1,374,056	19,818,698	3,350,888	59,515,164	84,058,806
Disposal	-	(206,068)	(4,915,630)	(944,037)	-	(6,065,735)
Transfer from capital work under construction	-	68,508,120	23,619,152	682,214	(92,809,486)	-
<b>Balance at December 31, 2017</b>	<b>33,786,058</b>	<b>298,617,972</b>	<b>170,921,526</b>	<b>104,211,437</b>	<b>101,670,266</b>	<b>709,207,259</b>

**Accumulated depreciation:**

Balance at January 1, 2017	-	26,960,355	56,453,446	22,687,920	-	106,101,721
Charge for the year	-	19,739,343	23,731,729	11,066,716	-	54,537,788
Disposals	-	(171,882)	(4,778,346)	(944,037)	-	(5,894,265)
<b>Balance at December 31, 2017</b>	-	<b>46,527,816</b>	<b>75,406,829</b>	<b>32,810,599</b>	-	<b>154,745,244</b>

**Carrying amounts:**

<b>At December 31, 2017</b>	<b>33,786,058</b>	<b>252,090,156</b>	<b>95,514,697</b>	<b>71,400,838</b>	<b>101,670,266</b>	<b>554,462,015</b>
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**Notes to the Financial Statements** continued  
**For the year ended December 31, 2018**  
(Expressed in Saudi Arabian Riyals)

**7. PROPERTY, PLANT AND EQUIPMENT** continued

**A. Reconciliation and carrying amount** continued  
**2018**

Capital work under construction represents construction works at Saudia City Motel in Jeddah, Jeddah Alfursan Lounge at King Abdulaziz International Airport (New Airport) and the Riyadh Single Camp Project.

There are no restrictions on any asset neither any asset have been pledged as security to any party

**2017**

Capital work under construction represents construction works on welcome lounges at King Khalid International Airport (Terminals 1, 2 and 5) in Riyadh.

There are no restrictions on any asset neither any asset have been pledged as security to any party.

**B. Depreciation for the year ended December 31 was allocated as follows:**

	Note	2018	2017
Cost of sales	24	51,913,346	47,570,477
General and administrative expenses	26	8,525,603	6,967,311
		<b>60,438,949</b>	54,537,788

**8. INTANGIBLE ASSET**

**A. Intangible Asset**

Intangible asset represents system software that the Company implemented during 2015.

**B. Reconciliation and carrying amount**

	December 31, 2018	December 31, 2017
<b>Cost</b>		
Balance at January 1	3,820,824	3,820,824
<b>Balance at December 31</b>	<b>3,820,824</b>	3,820,824
<b>Accumulated amortization</b>		
Balance at January 1	2,538,640	1,339,736
Amortisation	1,023,915	1,198,904
<b>Balance at December 31</b>	<b>3,562,555</b>	2,538,640
<b>Carrying amounts</b>	<b>258,269</b>	1,282,184

**C. Amortisation**

The amortisation is included in 'General and administrative expenses'.

**9. INVESTMENT PROPERTY**

**A.** The investment property is part of a building constructed by the Company and is being leased to a related party in Dammam.

**B. Reconciliation and carrying amount**

	December 31, 2018	December 31, 2017
<b>Cost</b>		
Balance at January 1	42,876,890	37,017,552
Additions	-	5,859,338
<b>Balance at December 31</b>	<b>42,876,890</b>	42,876,890
<b>Accumulated depreciation</b>		
Balance at January 1	2,590,507	841,308
Charge for the year	1,948,949	1,749,199
<b>Balance at December 31</b>	<b>4,539,456</b>	2,590,507
<b>Carrying amounts</b>	<b>38,337,434</b>	40,286,383

**10. EQUITY ACCOUNTED INVESTEE**

**A. Investment in associate**

On May 10, 2017, the Company invested an amount of SR 30,757,600 in Saudi French Company for Duty Free Operations and Management representing 40% of its share capital.

The Company started to record its share in the losses of the associate from May 10, 2017.

**B. The balances of the investment in associate as at December 31 are as follows:**

Name	Country of incorporation	Effective ownership interest (%)		Carrying value	
		December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Saudi French Company For Duty Free Operations and Management (Limited Liability Company)	Kingdom of Saudi Arabia	40%	40%	15,125,813	20,642,074

**C. The movement in the investment in associate during the period was as follows:**

	December 31, 2018	December 31, 2017
Opening balance	20,642,074	-
Capital contribution	-	30,757,600
Share in net loss	(5,406,251)	(10,115,526)
Share in other comprehensive loss	(110,010)	-
<b>Ending balance</b>	<b>15,125,813</b>	20,642,074

**D. Below is the summary of the financial information of the investee as at December 31, 2018 and December 31, 2017:**

At the date of the financial statements, the associate had not issued audited financial statements. Accordingly the financial data below and the share of loss for the year ended December 31, 2018 is based on internal management draft financial statements.

**i) Share in net assets**

	December 31, 2018	December 31, 2017
Non current assets	31,405,421	26,055,824
Current assets	79,893,590	95,903,344
<b>Total assets</b>	<b>111,299,011</b>	121,959,168
Non current liabilities	819,847	550,029
Current liabilities	72,664,632	69,803,954
<b>Total liabilities</b>	<b>73,484,479</b>	70,353,983
<b>Net assets</b>	<b>37,814,532</b>	51,605,185
Company's share in net assets (40%)	15,125,813	20,642,074

**ii) Share in loss**

	Year ended December 31, 2018	From May 10, 2017 to December 31, 2017
Revenue	242,844,499	106,170,470
Net loss for the year/period	(13,515,627)	(25,288,816)
Other comprehensive loss	(275,025)	-
Company's share of loss for the year/period (40%)	(5,406,251)	(10,115,526)
Company's share of other comprehensive loss (40%)	(110,010)	-

The Company has a call option by which it has the right to purchase 11% of the total shares of the associate from one of the shareholders subject to fulfilling legal requirements and obtaining certain approvals. If the Company succeeded to fulfill all the requirements and purchased the 11% shares, its shares in the investee will reach 51% and accordingly will have control over the investee and will then start consolidating.

At the date of the financial statements, the Company was unable to practice the call option due to legal formalities and accordingly was unable to obtain control and management continued to account for this investment as an associate.

# Notes to the Financial Statements continued

## For the year ended December 31, 2018

(Expressed in Saudi Arabian Riyals)

### 10. EQUITY ACCOUNTED INVESTEE continued

D. Below is the summary of the financial information of the investee as at December 31, 2018 and December 31, 2017: continued

#### iii) Impairment test of associate

The recoverable amount of this equity accounted investee is estimated using discounted cash flows. The fair value measurement was categorized as a level 3 fair value based on the inputs in the valuation technique used.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

	2018	2017
Discount rate	7%	7%
Terminal value growth rate	0%	0%
Budgeted EBITDA growth rate (average of next five years)	(2%)	(2%)

Management of the Company has assessed in detail the carrying value of Saudi French Company for Duty Free Operations and Management as at December 31 on the basis of above assumptions and concluded that there is no impairment in the associate that needs to be recognized.

### 11. OTHER FINANCIAL ASSETS

	Note	December 31, 2018	December 31, 2017
<b>Financial assets measured at amortized cost:</b>			
Investment in Saudi British Bank Sukuk	11-A	-	40,000,000
Letters of guarantee		29,991,692	33,620,570
		<b>29,991,692</b>	<b>73,620,570</b>

#### A. Investment in Saudi British Bank Sukuk

The Saudi British Bank (SABB) Sukuk ("Sukuk II") carries a return of SIBOR plus a margin of 1.4 percent calculated semi-annually. The Sukuk II was to be liquidated in 2020 but the Company had the option to redeem the Sukuk in 2018. The Company exercised the option to redeem the full Sukuk amount on December 17, 2018.

### 12. INVENTORIES

#### A. Inventories comprise the following:

	December 31, 2018	December 31, 2017
Catering items	32,195,629	28,344,428
Retails items (formerly Skysales)	96,582,463	78,296,188
Spare parts	6,803,367	4,535,592
Packing and other materials	2,842,744	3,143,816
	<b>138,424,203</b>	<b>114,320,024</b>
Provision for slow-moving and obsolete inventories	(13,396,325)	(4,339,108)
	<b>125,027,878</b>	<b>109,980,916</b>

#### B. Movement in provision for slow moving and obsolete inventories for the year was as follows:

	December 31, 2018	December 31, 2017
Balance at beginning of the year	4,339,108	8,322,784
Charge for the year	9,667,440	1,850,871
Utilised during the year	(421,247)	(5,743,586)
Write-off during the year	(188,976)	(90,961)
<b>Balance at end of the year</b>	<b>13,396,325</b>	<b>4,339,108</b>

Provision for slow-moving and obsolete inventories is based on the nature of inventories, sales expectations, historic trends and other qualitative factors.

### 13. TRADE AND OTHER RECEIVABLES

#### A. Trade and other receivables at December 31 comprise the following:

	Note	December 31, 2018	December 31, 2017
Trade receivables due from related parties (net of purser provision)	22-C	722,310,992	705,084,445
Trade receivables - third parties		268,417,405	203,269,330
		<b>990,728,397</b>	<b>908,353,775</b>
Less: Allowance for expected credit losses	13-C	(40,502,850)	(53,427,618)
		<b>950,225,547</b>	<b>854,926,157</b>

- Trade receivables disclosed above are classified as loans and receivables and are measured at amortized cost.
- The Company does not have any collateral over receivables and the vast majority are, therefore, unsecured. Unimpaired trade receivables are expected on the basis of past experience, to be fully recoverable.
- 72% of the trade receivables is due from government or semi-government entities (2017: 76%).

#### B. The ageing analysis of trade receivable is as follows:

	Up to three months	Above three and up to six months	Above six months	Total
<b>December 31, 2018</b>	<b>761,740,746</b>	<b>147,567,845</b>	<b>81,419,806</b>	<b>990,728,397</b>
December 31, 2017	625,923,887	191,306,341	91,123,547	908,353,775

#### C. Movements summary in impairment losses provision for receivables for the year ended December 31 is as follows:

	December 31, 2018	December 31, 2017
Balance at beginning of the year	53,427,618	65,717,195
Charged for the year	-	18,711,515
Write-off during the year	(538,781)	(750,000)
Reversal during the year	(12,385,987)	(30,251,092)
Balance at end of the year	<b>40,502,850</b>	<b>53,427,618</b>

#### D. Movements summary in allowance for related parties balance for the year ended December 31 are as follows:

	December 31, 2018	December 31, 2017
Balance at beginning of the year	4,476,079	8,620,203
Charged for the year	388,045	455,204
Write-off during the year	(17,284)	-
Reversal during the year	(820,839)	(4,599,328)
Balance at end of the year	<b>4,026,001</b>	<b>4,476,079</b>

### 14. PREPAYMENTS AND OTHER ASSETS

Prepayments and other assets at December 31 comprise the following:

	December 31, 2018	December 31, 2017
Prepayments	108,903,942	92,318,604
Vat Input tax	46,914,574	-
Unbilled receivables	18,677,239	28,413,467
Advances to suppliers	12,462,620	1,628,106
Margin deposits with banks	4,010,586	1,417,540
Advances to employees	1,888,412	2,435,735
	<b>192,857,373</b>	<b>126,213,452</b>

- Unbilled receivables represented is billing not yet approved by customers. As at December 31, 2018 there were no significant unbilled receivable outstanding for more than 1 year.

**Notes to the Financial Statements** continued  
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**15. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at December 31 comprise the following:

	December 31, 2018	December 31, 2017
Cash at bank – current accounts	<b>145,997,345</b>	100,402,166
Cash in hand	<b>1,255,398</b>	1,145,492
	<b>147,252,743</b>	101,547,658

**16. SHARE CAPITAL**

**A. Share capital**

	December 31, 2018	December 31, 2017
In issue at January 1, 2018 (number of shares)	<b>82,000,000</b>	82,000,000
Issued for cash	-	-
In issue at December 31, 2018- fully paid (number of shares)	<b>82,000,000</b>	82,000,000
Issued – par value SAR 10	<b>820,000,000</b>	820,000,000

**B. At December 31, 2018 and 2017 the shareholders and their percentage interests in the share capital of the Company are as follows:**

Shareholder	No. of shares	Value in SR	%
Saudi Arabian Airlines Corporation	<b>29,274,000</b>	<b>292,740,000</b>	<b>35.7</b>
Strategic Catering Company Limited	<b>7,641,379</b>	<b>76,413,790</b>	<b>9.3</b>
Alhokair Company Joint Stock Company	<b>7,111,256</b>	<b>71,112,560</b>	<b>8.7</b>
General public	<b>37,973,365</b>	<b>379,733,650</b>	<b>46.3</b>
	<b>82,000,000</b>	<b>820,000,000</b>	<b>100</b>

**C. Ordinary shares**

Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

**17. STATUTORY RESERVE**

In accordance with the new Company's bylaws approved by the General Assembly meeting dated April 17, 2017 and the new Saudi Arabian Regulations for Companies, the Company sets aside 10% of its profit each year as statutory reserve until such reserve equals to 30% of the share capital.

The Company has transferred an amount in excess of 30% to the statutory reserve in previous years.

**18. DIVIDENDS**

**A.**

**i) The following dividends were declared by the Company during the year ended December 31, 2018.**

	December 31, 2018
March 27, 2018: SR 1.30 per ordinary share after Zakat and before tax deduction (Income tax adjusted)	<b>104,673,521</b>
May 5, 2018: SR 1.35 per ordinary share after Zakat and before tax deduction (Income tax adjusted)	<b>108,541,626</b>
August 2, 2018: SR 1.40 per ordinary share after Zakat and before tax deduction (Income tax adjusted)	<b>111,932,975</b>
November 6, 2018: SR 1.50 per ordinary share after Zakat and before tax deduction (Income tax adjusted)	<b>120,202,953</b>
	<b>445,351,075</b>

Subsequent to year end the Company announced dividend of SR 1.30 per ordinary share with an amount of SR 106.6 million.

**ii) The following dividends were declared by the Company during the year ended December 31, 2017.**

	December 31, 2017
January 26, 2017: SR 1.30 per ordinary share after Zakat and before tax deduction (Income tax adjusted)	104,674,258
May 3, 2017: SR 1.25 per ordinary share after Zakat and before tax deduction (Income tax adjusted)	100,452,959
August 14, 2017: SR 1.50 per ordinary share after Zakat and before tax deduction (Income tax adjusted)	120,372,941
November 2, 2017: SR 1.50 per ordinary share after Zakat and before tax deduction (Income tax adjusted)	120,909,317
	446,409,475

**B. The movement in the dividends payable for the year ended December 31 is as follows:**

	December 31, 2018	December 31, 2017
Balance at beginning of the year	<b>3,120,329</b>	3,167,828
Declared during the year	<b>445,351,075</b>	446,409,475
Paid during the year	<b>(325,241,423)</b>	(446,456,974)
<b>Balance at end of the year</b>	<b>123,229,981</b>	3,120,329

**19. EMPLOYEE BENEFITS**

	Notes	December 31, 2018	December 31, 2017
Employees' end-of-service benefits	19.A	<b>165,023,832</b>	168,998,200
Accrued bonus – long term	19.B	<b>2,400,000</b>	-
		<b>167,423,832</b>	168,998,200

**A. Defined benefit obligations**

**i) Movement in defined benefit liability**

The following table shows a reconciliation from the opening balances to the closing balances for the employees' end-of-service benefits.

	December 31, 2018	December 31, 2017
Balance at January 1	<b>168,998,200</b>	155,656,500
<b>Current service cost included in profit or loss</b>		
Service cost	<b>14,860,779</b>	12,010,400
Finance cost	<b>5,256,820</b>	4,845,600
	<b>20,117,599</b>	16,856,000
<b>Included in OCI</b>		
Actuarial (gain)/loss arising from:	<b>(4,690,707)</b>	12,973,100
- Demographic assumptions	<b>1,489,821</b>	-
- Financial assumptions	<b>9,855,947</b>	(2,779,500)
- Experience adjustment	<b>(16,036,475)</b>	15,752,600
Remeasurement (gain)/loss:	<b>(4,690,707)</b>	12,973,100
<b>Other</b>		
Benefits paid	<b>(19,401,260)</b>	(16,487,400)
Employees' end-of-service benefits.	<b>165,023,832</b>	168,998,200

**Notes to the Financial Statements** continued  
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**19. EMPLOYEE BENEFITS** continued

**B. The movement in the dividends payable for the year ended December 31 is as follows:** continued

**ii) Actuarial assumptions**

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	December 31, 2018	December 31, 2017
Discount rate	4.30%	3.50%
Future salary growth	4.30%	2.25%
Voluntary turnover rate	6.6%	11% to 18%
In-voluntary turnover rate	10.45%	3%
Retirement age	60 years	60 years

**iii) Sensitivity analysis**

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	December 31, 2018		December 31, 2017	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5% movement)	161,034,306	(169,222,795)	164,574,500	(173,688,500)
Future salary growth (0.5% movement)	169,607,321	(160,629,165)	173,714,400	(164,509,000)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

**B. Accrued bonus - long term**

The movement in accrued bonus-long term during the year was as follows:

	December 31, 2018	December 31, 2017
Balance at January 1	-	7,616,142
Provision for the year	2,400,000	-
Transfer to short term bonus	-	(3,826,360)
Benefits paid	-	(3,789,782)
	2,400,000	-

The amount represents the first year of the second cycle of long term bonus incentive for senior management. No payment will be made in the next year, accordingly the whole balance is classified as long-term.

**20. ZAKAT AND INCOME TAX LIABILITIES**

The following is the breakdown of the zakat and income tax liability as at December 31:

	December 31, 2018	December 31, 2017
Zakat payable	28,259,464	29,522,917
Income tax payable	2,050,550	1,667,170
Zakat and income tax liabilities as at December 31	30,310,014	31,190,087

**A. Zakat and income tax provision**

**i) The movement summary in Zakat provision is as follows:**

	December 31, 2018	December 31, 2017
Balance at beginning of the year	29,522,917	26,716,426
Charge for the year	28,259,464	29,522,916
Adjustment related to prior years	(426,233)	3,455,137
Payments during the year	(29,096,684)	(30,171,562)
<b>Balance at end of the year</b>	<b>28,259,464</b>	<b>29,522,917</b>

**ii) The movement in income tax provision is as follows:**

	December 31, 2018	December 31, 2017
Balance at beginning of the year	1,667,170	383,926
Charge for the year	9,024,271	9,041,633
Adjustment related to prior year	256,675	(350,367)
Payments during the year	(8,897,566)	(7,408,022)
<b>Balance at end of the year</b>	<b>2,050,550</b>	<b>1,667,170</b>

**iii) Charge of the year ended December 31 is as follows:**

	2018	2017
Zakat charge for the year	28,259,464	29,522,916
Zakat prior year adjustment	(426,233)	3,455,137
	27,833,231	32,978,053
Income tax charge of the year	9,024,271	9,041,633
Income tax prior year adjustment	256,675	(350,367)
	9,280,946	8,691,266
<b>Total Zakat and income tax of the year</b>	<b>37,114,177</b>	<b>41,669,319</b>

**B. Zakat components**

	December 31, 2018	December 31, 2017
Non-current assets	670,422,118	690,293,226
Non-current liabilities	167,423,832	168,998,200
Shareholders' equity	1,301,455,457	1,282,944,951
Profit before Zakat and income tax	496,395,061	523,407,298

**C. Zakat assessments**

The Company has submitted its Zakat and tax declarations for the years from 2009 to 2014 and paid the amounts due according to the declarations and received queries from GAZT which it has responded to and currently waiting for GAZT review of these responses.

The Company has also submitted its Zakat and tax declarations for the years 2015 to 2017 which are currently under review by GAZT. The Company has obtained a certificate until April 30, 2019.

**21. TRADE AND OTHER PAYABLES**

Trade payables at December 31 comprise the following:

	Note	December 31, 2018	December 31, 2017
Trade payables due to related parties	22-C	35,434,408	39,809,203
Other trade payables		212,663,835	181,873,105
Accrued expenses		186,889,388	175,025,534
Dividend payable		123,229,981	3,120,329
VAT Output Tax		28,378,744	-
		586,596,356	399,828,171



**Notes to the Financial Statements** continued  
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**22. RELATED PARTIES DISCLOSURES**

**A. Related parties include the Company's shareholders and their relatives up to the fourth generation, associated companies and directors and key management personnel of the Company. Terms and conditions of these transactions at agreed rates are approved by the Company's management.**

**B. Transactions with key management personnel**

Key management personnel compensation comprised the following:

	2018	2017
Short term employee benefits	<b>6,536,196</b>	5,775,814
Post employment benefits	<b>145,800</b>	145,800
Termination benefits	<b>332,292</b>	339,819
<b>Total</b>	<b>7,014,288</b>	6,261,433

**C. Related parties' transactions and balances**

Significant related parties' transactions for the year ended December 31 and balances arising-there from are described as under:

**i) Sale of goods and services (under trade and other receivables)**

	Transaction values for the year		Balances	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
<b>Parent of the Company:</b>				
Saudi Arabian Airlines Corporation	<b>1,409,449,802</b>	1,282,577,412	<b>663,009,364</b>	633,139,064
<b>Shareholder:</b>				
Alhokair Company Joint Stock Company	<b>98,168</b>	11,595	<b>(159,913)</b>	93,175
<b>Affiliates:</b>				
Saudi Airlines Cargo Company	<b>14,718,896</b>	17,433,516	<b>14,176,765</b>	29,128,050
Saudi Ground Services Company	<b>45,144,079</b>	57,423,404	<b>32,527,902</b>	25,611,471
Saudi French Company for Duty Free Operations and Management	<b>9,855,414</b>	21,226,426	<b>12,338,822</b>	16,658,845
Saudi Airlines Real Estate Development Company	<b>-</b>	72,022	<b>418,052</b>	453,840
<b>Total</b>			<b>722,310,992</b>	705,084,445

**ii) Purchase of goods (under trade and other payables)**

	Transaction values for the year		Balances	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
<b>Parent of the Company:</b>				
Saudi Arabian Airlines Corporation	<b>4,050,650</b>	8,317,109	<b>4,606,589</b>	9,766,970
<b>Shareholders:</b>				
Newrest Company Holding S.L.	<b>11,390,614</b>	11,779,983	<b>(29,850)</b>	35,168
Alhokair Company Joint Stock Company	<b>27,213</b>	191,325	<b>-</b>	307,140
<b>Affiliates:</b>				
Saudi Airlines Real Estate Development Company	<b>13,397,623</b>	16,252,858	<b>21,150,466</b>	21,155,603
Saudi Airlines Cargo Company	<b>-</b>	-	<b>7,455,197</b>	7,455,197
Saudi Ground Services Company	<b>1,207,643</b>	71,830	<b>1,422,838</b>	215,194
Gulfwest Company Limited	<b>7,925,799</b>	3,545,045	<b>829,168</b>	873,931
<b>Total</b>			<b>35,434,408</b>	39,809,203

**23. REVENUE**

	2018	2017
In-flight catering revenue	<b>1,460,605,418</b>	1,335,680,421
Retail revenue	<b>177,717,238</b>	261,503,197
Business lounge revenue	<b>170,831,566</b>	169,773,018
Non-airlines revenue	<b>189,958,393</b>	164,457,456
<b>Other operating revenues</b>		
Camp facilities sales (staff feeding & accommodation)	<b>26,580,696</b>	18,308,385
Exclusivity purchase income & services to suppliers	<b>10,064,619</b>	2,842,463
<b>Total</b>	<b>2,035,757,930</b>	1,952,564,940

**24. COST OF SALES**

	Note	2018	2017
Cost of materials and goods		<b>645,382,870</b>	665,986,421
Personnel costs		<b>295,906,356</b>	254,854,248
Rent and maintenance of production units		<b>151,697,845</b>	126,876,905
Depreciation	7.B	<b>51,913,346</b>	47,570,477
<b>Other operating costs</b>			
Manpower and transportation cost		<b>72,411,142</b>	61,769,881
Supplies and expandable items		<b>35,611,666</b>	32,556,695
Communication and utilities		<b>30,389,765</b>	21,888,066
Other operational costs		<b>55,965,468</b>	18,270,292
<b>Total</b>		<b>1,339,278,458</b>	1,229,772,985

**25. OTHER INCOME**

	2018	2017
Management fee income	<b>3,442,000</b>	1,911,986
Medical ex - gratia income	<b>2,334,400</b>	1,780,000
Commission Income	<b>790,500</b>	633,535
Others	<b>5,788,751</b>	2,721,153
<b>Total</b>	<b>12,355,651</b>	7,046,674

**26. GENERAL AND ADMINISTRATIVE EXPENSES**

	Notes	2018	2017
Amortization	8	<b>1,023,915</b>	1,198,904
Board of Directors' fee		<b>3,442,171</b>	3,029,932
Depreciation	7,9	<b>10,474,553</b>	8,716,510
Insurance		<b>4,217,009</b>	3,007,110
Management fee		<b>8,310,558</b>	10,007,867
Marketing and promotional		<b>7,004,925</b>	6,540,566
Personnel costs		<b>116,594,906</b>	119,887,957
Professional and technical fee		<b>3,985,034</b>	5,047,742
Rent		<b>24,034,737</b>	21,054,942
Repairs and maintenance		<b>271,342</b>	260,036
Service agreement fee		<b>10,547,099</b>	10,267,786
Stationary and printing		<b>414,027</b>	501,353
Travelling		<b>9,172,082</b>	4,171,112
Utilities		<b>6,905,430</b>	5,694,480
Other		<b>8,051,579</b>	7,888,531
<b>Total</b>		<b>214,449,367</b>	207,274,828

**Notes to the Financial Statements** continued  
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**27. OTHER EXPENSES**

	2018	2017
Bank commissions	1,519,378	1,476,710
Loss on sale of property, plant and equipment	105,341	171,470
Foreign currency exchange loss	-	1,197,440
	<b>1,624,719</b>	2,845,620

**28. FINANCE INCOME**

	2018	2017
Interest income on financial asset classified as amortised cost	1,478,314	1,436,785
Other interest income	-	1,529,757
<b>Finance income</b>	<b>1,478,314</b>	2,966,542
<b>Finance income recognized in profit or loss</b>	<b>1,478,314</b>	2,966,542

**29. EARNINGS PER SHARE**

**A. Basic earnings per share**

The calculation of basic earnings per share has been based on the following profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

**i. Profit attributable to ordinary shareholders (basic)**

	2018	2017
Profit for the year, attributable to the owners of the Company	459,280,884	481,737,979

**ii. Weighted-average number of ordinary shares (basic)**

	2018	2017
Issued ordinary shares at January 1	82,000,000	82,000,000
Effect of shares issued	-	-
<b>Weighted-average number of ordinary shares at December 31</b>	<b>82,000,000</b>	82,000,000

**B. Diluted earnings per share**

There were no diluted shares during the year, accordingly, the diluted earnings per share will be the same as the basic earnings per share.

**30. CAPITAL MANAGEMENT**

The Company's objective when managing capital is to safeguard the Company's ability as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its businesses.

The Company manages the Capital structure in the context of economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, opt for short term or loan term loans.

The Company monitors return on capital employed and makes adjustment to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may obtain short term or loan term loans. The Company monitors capital using a debt equity ratio.

	December 31, 2018	December 31, 2017
Total liabilities	784,330,202	600,016,458
Less: cash and cash equivalents	(147,252,743)	(101,547,658)
<b>Net debt</b>	<b>637,077,459</b>	498,468,800
<b>Total equity</b>	<b>1,301,455,457</b>	1,282,944,951
<b>Net debt to total equity ratio</b>	<b>49%</b>	39%

**31. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT**

**A. Measurement of fair values**

Except for the investment property, the fair values of the Company's financial assets and liabilities approximate their carrying amounts.

**B. Financial risk management**

The Company's activities expose it to a variety of financial risks: market risk (cash flow and interest rate risk), credit risk and liquidity risk.

The Company's overall risk management program focuses on robust liquidity management as well as monitoring of various relevant market variables, thereby consistently seeking to minimize potential adverse effects on the Company's financial performance.

**Risk management framework**

The Board of Directors has put in place appropriate structures to ensure risk governance and monitoring across the Company. The Company's overall financial risk management focuses on the unpredictability of financial markets and the clients' payment behavior and seeks to minimize potential adverse effects on the Company's financial performance.

The principles of overall financial risk management, as well as policies covering specific areas such as credit risk and the investment of excess liquidity exist and are formally documented.

**Cash flow and interest rate risk**

As the Company has no significant interest-bearing assets, the Company's income and associated operating cash inflows are substantially independent of changes in market interest rates. The Company has no interest-bearing liabilities.

**Credit risk**

Credit risk reflects the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Company. The credit risk arising from cash and cash equivalents and deposits with banks and financial institutions are limited because the counterparties are banks and financial institutions which, in general, have an investment grade rating assigned by international credit rating agencies.

The Company's gross maximum exposure to credit risk at the reporting date is as follows:

	December 31, 2018	December 31, 2017
<b>Financial assets</b>		
Other financial asset	29,991,692	73,620,570
Trade receivables	223,888,554	145,365,633
Due from related parties	726,336,993	709,560,524
Other receivables	22,687,824	29,831,007
Balances with banks	145,997,345	100,402,166
	<b>1,148,902,408</b>	1,058,779,900

Credit risk on receivable and bank balances is limited as:

- Cash balances are held with banks with sound credit ratings ranging from A3 to A1 based on Moody's credit rating and BBB+ based on Fitch credit rating. All bank accounts are held with banks within Saudi Arabia and Cairo.
- The Company currently does not obtain security/collaterals from its customers.
- Financial position of related parties is stable.

**Concentration Risk**

As at December 31, 2018, 5 largest customers (December 31, 2017: 5 largest customers) account for approximately 75% (31 December 2017: 78%) of gross outstanding trade receivables.

**Liquidity risk**

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. The Company maintain flexibility in funding by maintaining sufficient availability of cash and cash equivalent instruments. The Company don't have any credit facilities in place and monitor risk to a shortage of funds by reviewing short-term cash forecasts on a continuous basis and by undertaking mid-term cash forecasts during the year.

**Notes to the Financial Statements** continued  
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**31. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT** continued

**B. Financial risk management** continued

**Fair value of assets and liabilities**

The following table shows the carrying amount of the financial assets and financial liabilities at December 31, 2017 and 2018. The Company does not have any assets measured at FVTPL or FVOCI at December 31, 2017 and 2018.

Financial assets classified as amortised cost

	December 31, 2018	December 31, 2017
<b>Carrying value:</b>		
Other financial assets	<b>29,991,692</b>	73,620,570
Trade and other receivables	<b>227,914,555</b>	149,841,712
Due from related parties	<b>722,310,992</b>	705,084,445
Other receivables	<b>22,687,824</b>	29,831,007
Balances with banks	<b>145,997,345</b>	100,402,166
	<b>1,148,902,408</b>	1,058,779,900

Financial liabilities as at amortised cost

	December 31, 2018	December 31, 2017
<b>Carrying amount:</b>		
Trade and other payables	<b>586,596,356</b>	399,828,171

All the financials assets and liabilities mentioned above are at amortised cost and are not subject to fair value assessment.

**Exposure to liquidity risk**

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

December 31, 2018	Carrying amount	Total	less than one year	More than one year
<b>Liabilities</b>				
Trade and other payables	<b>586,596,356</b>	<b>586,596,356</b>	<b>586,596,356</b>	-
December 31, 2017	Carrying amount	Total	less than one year	More than one year
Liabilities				
Trade and other payables	399,828,171	399,828,171	399,828,171	-

The inflows/(outflows) disclosed in the above table represent the contractual undiscounted cash flows relating to financial liabilities which are not usually closed out before contractual maturity.

**32. COMMITMENTS AND CONTINGENCIES**

As at December 31, the Company had the following commitments and contingencies:

	December 31, 2018	December 31, 2017
Capital commitments	<b>81,609,125</b>	89,896,802
Letter of guarantees	<b>39,590,143</b>	35,038,109

Letters of guarantee are issued by a bank on behalf of the Company to a supplier and promises to meet any financial obligations to the supplier in the event of default and this requires the Company to place cash with the bank. As at December 31, 2018, the Company fully paid the amount against letters of guarantee, hence no further financial charges are payable.

The Company had a credit facility with SABB from April 2018 for the new bank guarantee issued on behalf of the Company to a supplier with the year-to-date issued amount of SR. 5,587,866.

**33. OPERATING LEASE**

The Company has offices under operating leases for various periods with an option to renew the leases after that date. Lease payments are negotiated annually to reflect market rates. In addition, the Company has various cancellable operating leases, which provide for annual renewal.

Future rental commitments at under operating leases are as follows:

	December 31, 2018	December 31, 2017
Not later than one year	<b>134,545,692</b>	118,935,653
Later than one year but not later than five years	<b>663,587,920</b>	589,555,356
More than five years	<b>379,955,384</b>	406,325,384
	<b>1,178,088,996</b>	1,114,816,393

**34. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were approved by the Board of Directors on Jumada Al Thani 29, 1440H, corresponding to March 6, 2019.

Chief Financial Officer

Chief Executive Officer

Authorized Board of Directors Member